


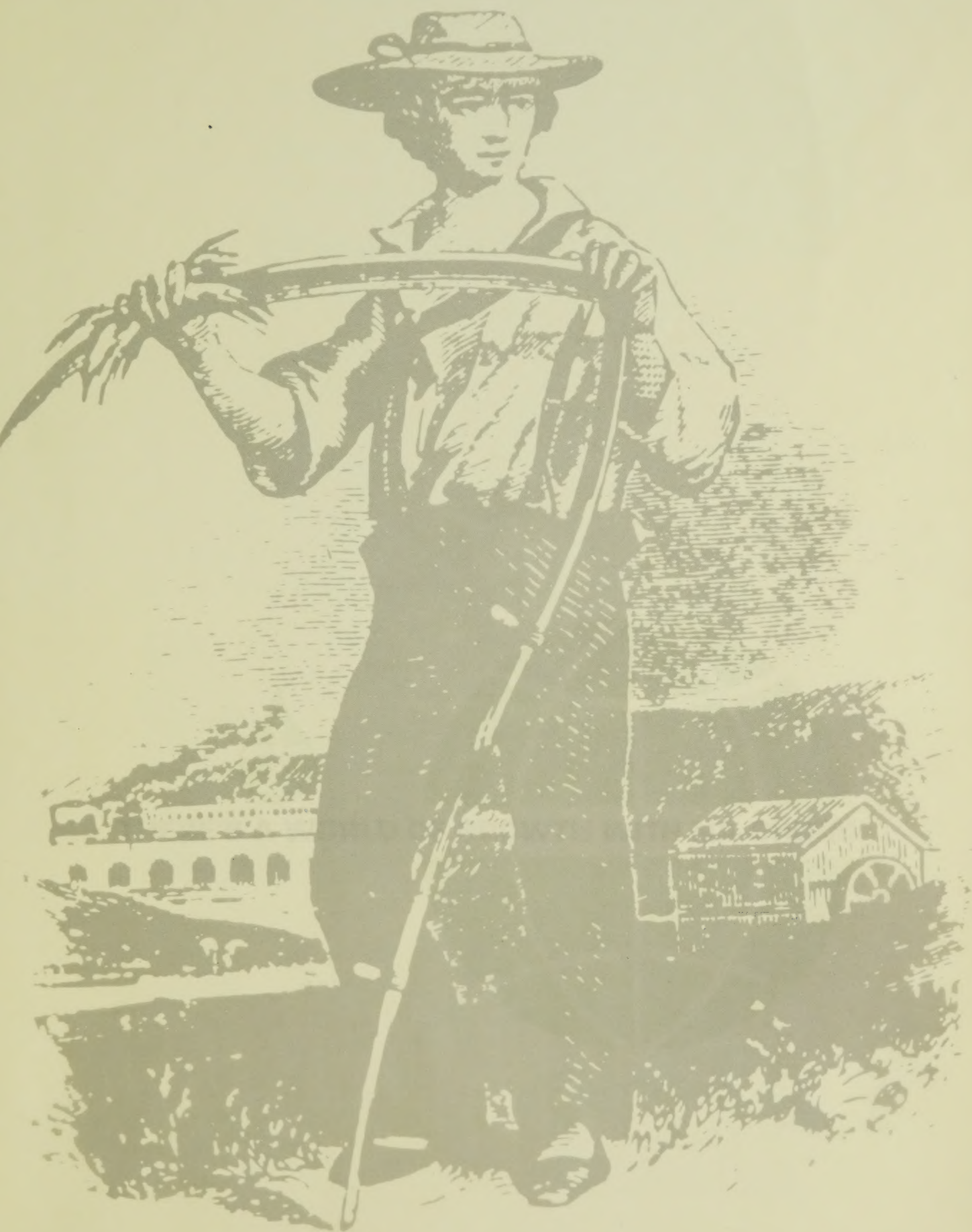


ANNUAL REPORT



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THERE'S A WORLD OF GROWTH WITH NA-CHURS



NA-CHURS
na-churs international
ANNUAL REPORT
directors and officers 1975



BYRON W. EDNEY
 President
 Na-Churs International Limited
 Director



WALTER J. EVANS
 Business Consultant,
 Prior to May, 1973
 President
 S. F. Lawrason & Company Limited
 Director



DONALD E. FOYSTON
 Director of
 A. E. Ames & Co. Ltd.
 Director



JOHN F. PETCH
 Lawyer, Osler, Hoskin & Harcourt
 Na-Churs International Limited
 Secretary-Director



JOHN A. ROGERS
 Managing Consultant
 Profit Counselors, Inc.
 Na-Churs Plant Food Co.
 Director



DONALD F. WEST
 Na-Churs International Limited
 Controller

HEAD OFFICE
 Oakridge Park, R.R. #3,
 London, Ontario, Canada

AUDITORS
 Ernst & Ernst

STOCK EXCHANGE
 Toronto Stock Exchange

TRANSFER AGENT AND REGISTRAR
 The Canada Trust Company, Toronto,
 Winnipeg, Vancouver

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a letter from the president TO OUR SHAREHOLDERS



For the tenth consecutive year, Na-Churs achieved records in production, deliveries and sales. Sales reached \$62 million for the first time in Na-Churs history, and earnings reached \$1.62 per share. Dividends were increased to a new high of 7½ cents per share quarterly, sharing the company's gains with its stockholders.

In mid-December, 1975, your Board of Directors decided that corrective procedures to assure a profit pattern more consistent with sales could best be launched through a management reorganization program. Because of my eighteen years' experience with Na-Churs, including the last six years as Executive Vice President, the Board elected me to the Presidency and worked closely with me in developing corrective guidelines.

The fact of reorganization is not, in itself, unusual for any company that has grown as rapidly as Na-Churs. The need for corrective action and the selection of a new "coach" to revitalize a capable team are common to the histories of most of the corporations on this continent. What is unusual is the need for a company president to write the annual report letter within a few weeks of assuming the presidency. Nevertheless, I welcome the privilege of sharing with you the opportunities and goals available to us in our revitalization program. Let me review some of them with you.

This year offers Na-Churs an opportunity to retain the largest number of potential repeat customers in Na-Churs history.

It's a time for manpower, facilities, financing and operating procedures to "catch up" with rapidly expanding sales. We have everything needed to increase customer, supplier and investor confidence in the long range capabilities and potentials of Na-Churs — to retain and increase Na-Churs' share of the market by continuing an aggressive posture in the marketplace.

Na-Churs is maturing rapidly as a major corporation. Its progress should become more visible to customers, prospects, suppliers and investors.

Now that Na-Churs has established itself as a significant factor in the fertilizer marketplace, it is especially important that our company become more sensitive to public opinion.

For example, Na-Churs success, both in product and style of operation, is great enough to attract a growing number of competitors. Na-Churs customers are logical prospects for our competitors. We will have to fight harder than ever before to keep the customers we have, and to gain new ones.

What Na-Churs accomplishes this year in terms of product and service improvement will be of great importance. Customers confidence in Na-Churs must be extended and fortified in every reasonable way. We are already busy with programs to nourish and expand customer understanding of our products and services and how to use them most efficiently.

Let me review with you some of our "operating assets" which are only partially reflected in this Annual Report. The resources we can bring to bear upon our 1976 efforts are truly impressive.

For example, consider the experience, the capabilities and the potentials of our staff of 2,700 people in the United States and Canada — a human resource pool that knows its product, knows agriculture, knows the peculiarities of the soil and climate in which each is operating, and which has demonstrated the kind of service-minded customer care that equips us powerfully for the competitive battles ahead. Much of our 1976 planning is dedicated to an all-out effort to be more responsive to the needs and wants of our field sales and service organization. These are the men on the firing line, in constant contact with the customer. Na-Churs, through highly professional soil tests and crop counseling, is already outstanding in its ability to be of direct help to customers in a most personal way. We want to intensify the degree of personal interest and concern with each customer even further by giving our field people the support and service they deserve.

Let's consider, too, our physical plant resources — our production capability and strong service backup made possible by the presence of well-equipped Na-Churs plants at Marion, Ohio; Red Oak, Iowa; Forrest City, Arkansas; and London, Ontario, Canada. Modern facilities in the hands of plant personnel who know their business give us a head start on sound, profitable progress this year.

Consider, also, our technological strengths. Our teams of professional experts in every phase of our business give us unsurpassed quality control to make sure our product is as good as money can make it and that it is consistent, batch after batch, plant after plant. Another team of experts provides some of the most sophisticated soil testing procedures available on this continent — a sound, scientific starting place for the development of profitable Na-Churs Programs for our customers. Meanwhile, Na-Churs test farms are busy and expanding their research, development and testing programs to make sure we continue as leaders in developing the newest and most effective ways to help our growing family of customers.

Our emphasis on good customer service is reflected by our 320 distribution points and our fleet of rail tank cars and tank trucks.

Behind all of these operating resources stand the financial and management guidance support of our team of banking partners and our growing family of shareholders. Their counsel, as well as monetary support, is especially appreciated during our program of reorganization.

Na-Churs has grown by earning and deserving the loyalty of customers in thirty-four States and two Provinces of Canada, with emphasis on product quality and personalized service to the individual grower. We are confident that the same combination, strengthened in every possible way, will continue our growth and progress in the years ahead.



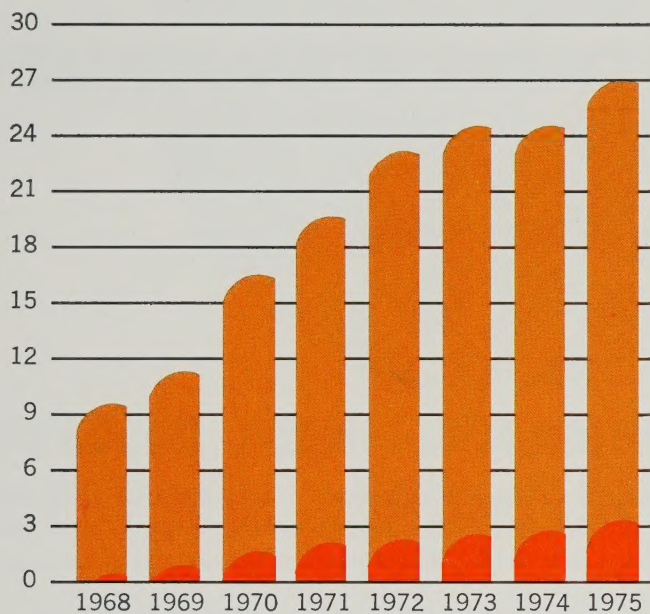
On behalf of the Board,

Byron Edney
BYRON W. EDNEY
President

EMPLOYEES

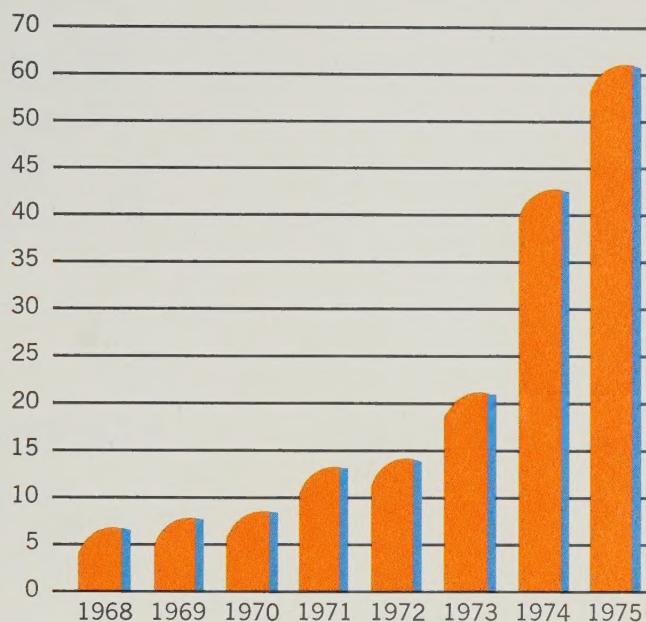
HUNDREDS

FIELD REPS. ADM. & STAFF



SALES

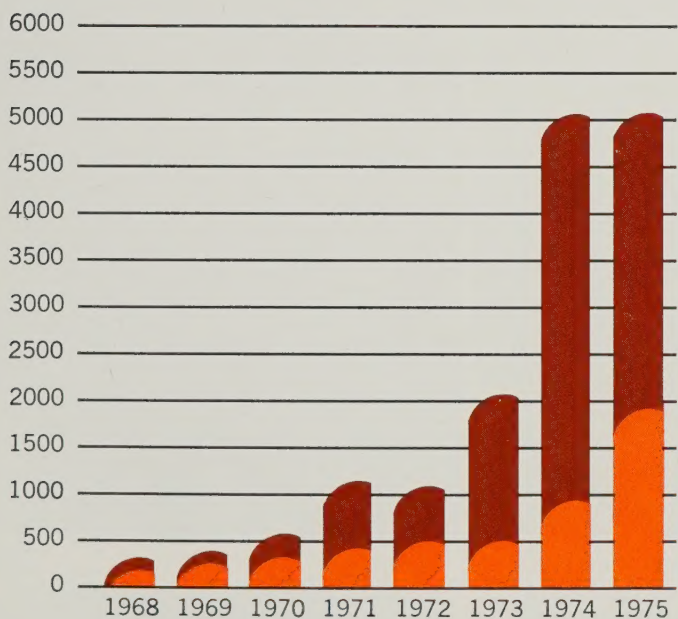
MILLIONS OF DOLLARS



FUNDS FLOW

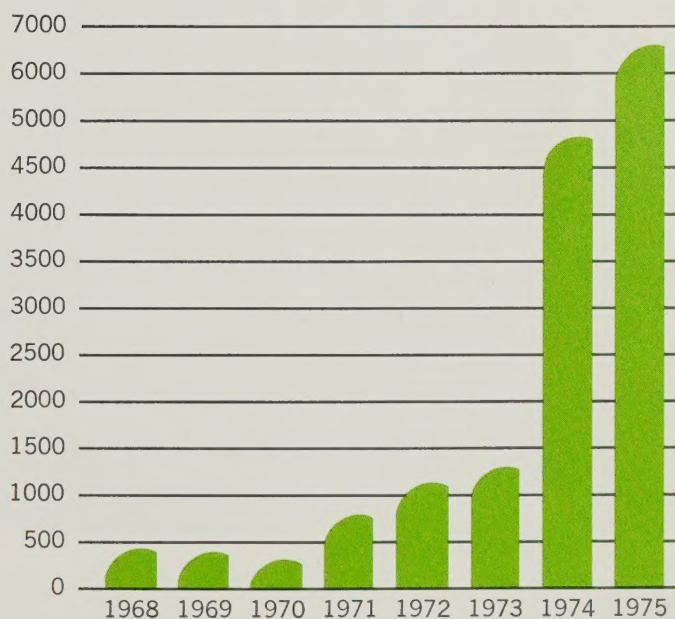
THOUSANDS OF DOLLARS

NET EARNINGS DEPRECIATION



NET CAPITAL EXPENDITURES

THOUSANDS OF DOLLARS





THERE'S A WORLD OF

THE WORLD'S FINEST IN LIQUID

IN THE FIELD. Using the Complete NA-CHURS Program
(1) Soil Testing (2) NA-CHURS in the Row (3) Deep Placed and
(4) Foliar Feeding, you pocket more profit dollars year after year.

In these days of higher prices and increasing costs,
it is more important than ever that farmers produce maximum
yields from their land and their labor. **PROVEN PROFIT!**
PROVEN PERFORMANCE! IS YOURS! There is still time
for you to call your Crop Service Representative to give you
the full NA-CHURS Program. Call him today.
He is probably a neighbor of yours.



CORN...

You can expect an increase in your field corn yield of 12 to 25 bushels per acre from row application, deep placement and foliar sprays.



SOYBEANS...

NA-CHURS adds EXTRA profit to your soybean operation. A small amount of plant food produces significant gains in yield and quality. So little does so much!



WHEAT...

NA-CHURS row feeding develops stronger root structure. In actual comparisons the NA-CHURS controlled feeding program is producing top yields — year in, year out — for farmers across the nation and Canada.

GROWTH WITH NA-CHURS

FERTILIZERS AND FEED SUPPLEMENTS

IN THE FEEDLOT. NA-CHURS Golden Liquid Supplement is a product of modern research. It is one of the few liquid feed supplements on the market today that contains no carriers such as molasses, etc. NA-CHURS is available in six quality-controlled homogenized rations: (1) beef (2) dairy (3) horse (4) hog (5) silage balancer for going into your silages (6) hen house special for the man raising broilers or eggs for profit.

Little is left to guesswork when you use a product such as NA-CHURS Golden Liquid Feed Supplement.



BEEF...

Documented feeding trials over a 3-year period using 4 oz. daily of NA-CHURS Golden Liquid Feed Supplement metered into feed produced an average daily gain of 2.59 lbs. per steer. This gain is especially significant in view of current feed costs.



DAIRY HERDS...

In one dairy herd after another, the results are comparable. Milk production is up, cows are healthier, less corn passes through undigested and there is less need for fly control when NA-CHURS Golden Liquid Feed Supplement is added to the ration.



HOGS...

Results are quick and measurable with NA-CHURS Gro-Quick Hog Supplement. Producers are enjoying faster gain and feed efficiency with more profit per hog.



THERE'S A WORLD OF GROWTH WITH NA

Income Statistics

	1975	1974
Net sales	\$62,745,173	\$42,843,000
Earnings before depreciation, interest on long-term debt and income taxes	10,631,856	11,022,635
Depreciation	1,848,946	905,412
Interest on long-term debt	16,441	83,044
	<u>1,865,387</u>	<u>988,456</u>
Earnings before income taxes	8,766,469	10,034,179
Income taxes	3,689,000	4,946,000
Net earnings	5,077,469	5,088,179
Net earnings per common share — Note B	1.62	1.62
Effective tax rate	42.1%	49.3%
Net earnings as % of sales	8.1%	11.9%

Balance Sheet Statistics

Current assets	\$29,910,995	\$16,977,215
Current liabilities	25,007,680	11,470,569
Working capital	4,903,315	5,506,646
Ratio of current assets to current liabilities	1.2:1	1.5:1
Net expenditures on plant and equipment	\$ 6,565,788	\$ 4,372,124
Long-term debt	200,740	290,720
Shareholders' equity	16,139,090	11,935,599
Common shareholders' equity per common share — Note B	5.09	3.75
Common shares outstanding at year-end — Note B	3,137,448	3,137,448
Net earnings as a % of common share- holders' equity (at beginning of year) after provisions for preferred dividends	43%	71.3%

CHURS



1973	1972	1971	1970	1969	1968	1967	1966
\$20,982,542	\$14,052,299	\$13,417,507	\$8,283,426	\$7,717,986	\$7,312,039	\$6,617,255	\$4,226,559
4,645,737	2,605,268	2,662,308	1,393,563	917,215	727,629	688,726	351,624
468,492	419,362	302,756	236,539	193,185	109,758	42,298	38,790
199,714	123,084	26,015	46,608	6,296	3,940	4,776	3,242
668,206	542,446	328,771	283,147	199,481	113,698	47,074	42,032
3,977,531	2,062,822	2,333,537	1,110,416	717,734	613,931	641,652	309,592
1,919,626	951,000	1,135,000	555,000	373,000	290,270	300,962	131,634
2,057,905	1,111,822	1,198,537	555,416	344,734	323,661	340,690	177,958
.67	.36	.39	.18	.11	.11	.14	.07
47.3%	46.1%	48.6%	50.0%	52.0%	47.3%	46.9%	42.5%
9.8%	7.9%	8.9%	6.7%	4.5%	4.4%	5.1%	4.2%
9,530,408	\$ 6,802,659	\$ 6,085,888	\$4,021,130	\$4,442,496	\$3,274,373	\$1,991,968	\$1,298,015
4,601,341	2,868,341	3,610,094	1,956,004	2,726,604	1,995,836	1,489,565	1,090,719
4,929,067	3,934,318	2,475,794	2,065,126	1,715,892	1,278,537	502,403	207,296
2.1:1	2.4:1	1.7:1	2.1:1	1.6:1	1.6:1	1.3:1	1.2:1
1,387,596	\$ 1,170,333	\$ 787,917	\$ 265,247	\$ 428,176	\$ 458,636	\$ 179,551	\$ 185,788
1,303,800	1,539,627	288,339	422,474	556,461	65,634	74,698	85,404
7,286,213	5,228,906	4,153,864	2,950,907	2,405,913	2,077,313	876,735	528,482
2.32	1.65	1.35	.90	.72	.61	.27	.15
3,074,448	3,065,448	3,035,448	3,012,288	3,012,288	3,012,288	2,401,308	2,399,994
40.7%	28.5%	43.9%	25.2%	18.3%	49.0%	90.8%	90.2%

NOTE A: 1969 and prior years have been restated in U.S. currency to compare to 1970 reporting.

NOTE B: Prior years are restated to reflect stock split in 1974 for two-for-one and in 1972 for three-for-one.



NA-CHURS CONSOLIDATED

SEPTEMBER 30

ASSETS

CURRENT ASSETS

	1975	1974
Cash — Note B	\$ 4,289,045	\$ 518,162
Trade notes and accounts receivable, less allowances for doubtful accounts of \$958,000 in 1975 and \$792,000 in 1974	10,224,136	(9,345,735) 9,026,536
		<u>9,544,698</u> (vs. 8,591,536)
Inventories:		
Finished products	7,817,532	1,606,091
Work in process, raw	5,897,888	5,201,887
materials and supplies	13,715,420	<u>6,807,978</u>
Recoverable taxes on income	1,106,215	
Deferred taxes on income	269,750	250,700
* Other current assets	306,429	373,839 ^{358,94}
TOTAL CURRENT ASSETS	29,910,995	16,977,215 (16,276,617)

PROPERTY, PLANT AND EQUIPMENT

Land — mortgaged	700,086	652,030
Buildings and roadways	1,818,780	1,095,763
Plant equipment and storage tanks	11,537,280	6,486,294
Office furniture and equipment	199,319	154,519
Transportation equipment	1,332,824	681,889
Allowances for depreciation (deduction)	(4,241,754)	(2,440,802)
	<u>11,346,535</u>	<u>6,629,693</u>
	<u>\$41,257,530</u>	<u>\$23,606,908</u>

23,171,908

See accompanying notes to consolidated financial statements.

INTERNATIONAL BALANCE SHEET

LIMITED AND SUBSIDIARIES
(EXPRESSED IN UNITED STATES CURRENCY)

SEPTEMBER 30

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

	1975	1974
Notes payable to banks — Note B	\$14,000,000	\$ 2,000,000
Trade accounts payable	4,229,784	1,094,047
Compensation and taxes thereon	4,192,661	3,963,989
Accrued interest, deposits and other	685,146	377,053
Taxes on income	733,734	3,510,500
Customer prepayments	1,076,375	435,000
Portion of long-term debt due within one year	89,980	89,980
TOTAL CURRENT LIABILITIES	25,007,680	11,470,569

not included
in 74
report

MORTGAGE NOTES PAYABLE — less portion

classified as current liability		
6%, due in annual installments of \$34,600 through 1976		34,600
8%, due in annual installments of \$55,380 through 1978	110,760	166,140
	110,760	200,740

SHAREHOLDERS' EQUITY

Capital stock — Notes D and E		
Authorized:		
Class "A" preferred — 11,766 shares, 6% cumulative, redeemable, par value \$10 Canadian per share		
Class "B" preferred — 200,000 shares, 6% non-cumulative, redeemable, par value 45¢ Canadian per share		
Common — 6,000,000 shares without par value		
Shares issued and outstanding:		
Class "A" preferred — 11,757 18/100	104,462	104,462
Class "B" preferred — 152,542	61,979	61,979
Common — 3,137,448	1,009,900	1,009,900
	1,176,341	1,176,341
Additional paid-in capital	29,769	29,769
Retained earnings	14,932,980	10,729,489
	16,139,090	11,935,599

COMMITMENTS AND CONTINGENT LIABILITIES —

Notes F, G and I	\$41,257,530	\$23,606,908
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APPROVED ON BEHALF OF THE BOARD:

Byron W. Edney, Director
Walter J. Evans, Director



NA-CHURS INTERNATIONAL

LIMITED AND SUBSIDIARIES

EARNINGS-OPERATIONS

STATEMENTS OF CONSOLIDATED INCOME AND RETAINED EARNINGS

(Expressed in United States Currency)

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

YEARS ENDED SEPTEMBER 30, 1975 and 1974

	INCOME	YEAR ENDED SEPTEMBER 30	
		1975	1974
Net sales and service charges		\$62,745,173	\$42,843,000
Deductions:			
Costs and expenses other than interest and taxes on income		53,306,106	32,721,680
Interest:			
Long-term debt		16,441	83,044
Other		857,553	78,513
		54,180,100	32,883,237
Other income ?		8,565,073	9,959,763
		201,396	74,416
	INCOME BEFORE TAXES ON INCOME	8,766,469	10,034,179
Taxes on income:			
Federal (deferred: 1975 — \$33,000; 1974 — \$102,700 credit)		3,293,000	4,543,000
State and city		396,000	403,000
		3,689,000	4,946,000
	NET INCOME (per common share: 1975 — \$1.62; 1974 — \$1.62)	\$ 5,077,469	\$ 5,088,179
Remuneration paid or payable to senior officers and directors of the Corporation		\$ 533,223	\$ 611,030

See accompanying notes to consolidated financial statements.

Why the drop in tax rate to 37% from 45% - otherwise, no profit!

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

(Expressed in United States Currency)

NA-CHURS INTERNATIONAL LIMITED

AND SUBSIDIARIES

YEARS ENDED SEPTEMBER 30, 1975 and 1974

RETAINED EARNINGS	YEAR ENDED SEPTEMBER 30	
	1975	1974
Balance at beginning of year	\$10,729,489	\$ 6,125,343
Net income	5,077,469	5,088,179
	15,806,958	11,213,522
Deduct cash dividends:		
On classes "A" and "B" preferred shares	11,178	11,178
On common shares (1975 — \$.275 per share; 1974 — \$.15 per share)	862,800	472,855
	873,978	484,033
Balance at end of year	\$14,932,980	\$10,729,489

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

(Expressed in United States Currency)

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

YEARS ENDED SEPTEMBER 30, 1975 and 1974

FUNDS PROVIDED

Net income	\$ 5,077,469	\$ 5,088,179
Provision for depreciation of property, plant and equipment which did not affect working capital	1,848,946	905,412
FUNDS PROVIDED FROM OPERATIONS	6,926,415	5,993,591
Proceeds from long-term debt		276,900
Cash proceeds from issuance of 63,000 common shares		45,240
TOTAL FUNDS PROVIDED	6,926,415	6,315,731

FUNDS USED

Expenditures for property, plant and equipment	6,565,788	4,372,124
Current maturities and retirement of long-term debt	89,980	1,045,360
Cash dividends	873,978	484,033
TOTAL FUNDS USED	7,529,746	5,901,517
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (603,331)	\$ 414,214

CHANGES IN COMPONENTS OF WORKING CAPITAL

Increase (decrease) in current assets:		
Cash	\$ 3,770,883	\$ (789,033)
Notes and accounts receivable	1,197,600	2,730,679
Inventories	6,907,442	4,632,141
Recoverable taxes on income	1,106,215	(61,000)
Deferred taxes on income	19,050	102,700
Other current assets	(67,410)	232,955
INCREASE IN CURRENT ASSETS	12,933,780	6,848,442
Increase (decrease) in current liabilities:		
Notes payable to banks	12,000,000	2,000,000
Trade accounts payable	3,135,737	532,434
Compensation and taxes thereon	228,672	1,788,637
Accrued interest, deposits and other	308,093	267,133
Taxes on income	(2,776,766)	2,090,644
Customer prepayments	641,375	
Portion of long-term debt due within one year		(244,620)
INCREASE IN CURRENT LIABILITIES	13,537,111	6,434,228
INCREASE (DECREASE) IN WORKING CAPITAL	\$ (603,331)	\$ 414,214

See accompanying notes to consolidated financial statements.



notes to consolidated financial statements

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

SEPTEMBER 30, 1975

NOTE A — ACCOUNTING POLICIES

Basis of Consolidation — The consolidated financial statements include the accounts of the Corporation and its subsidiaries (all of which are wholly-owned):

Na-Churs Plant Food Co.
Tri-State Trucking Inc.
Shenandoah Grain Corporation
Na-Churs Plant Food Company (Canada) Limited
The Berlou Company (Canada) Limited

Inter-Company accounts and transactions have been eliminated.

Translation of Foreign Currency — The financial statements are stated in United States dollars. Amounts in Canadian funds have been translated on the following basis:

- Current assets and current liabilities at approximate year-end rates;
- Property, plant and equipment, long-term debt and capital stock at historical rates; and
- Income, costs and expenses at average rates for the year.

Unrealized foreign exchange adjustments (nominal in amount) are treated as income or expense.

Inventories — Inventories have been valued generally at the lower of cost or market. Cost is determined on a first-in, first-out basis. Market is considered as replacement cost which cannot exceed net realizable value nor be less than net realizable value minus a normal profit margin.

Property, Plant and Equipment — Property, plant and equipment is carried at cost and includes expenditures for new assets and those expenditures which substantially increase the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. When properties are disposed of, the cost and related allowances for depreciation are removed from the accounts and any gain or loss is credited or charged to income.

The Corporation provides for depreciation of property, plant and equipment principally by the straight-line method, except for farm storage tanks acquired after September 30, 1974, over the estimated useful lives of the assets. The declining balance depreciation method is used for farm storage tanks acquired subsequent to September 30, 1974.

Rates used in the calculation of depreciation are as follows:

Buildings and roadways — 15 to 25 years
Plant equipment and storage tanks — 3 to 15 years
Office furniture and equipment — 5 to 10 years
Transportation equipment — 4 years

Income Taxes — The Corporation provides for income taxes based on income reported for financial statement purposes, adjusted for permanent tax differences. Deferred taxes result principally from bad debt expense and state franchise (income) tax expense in excess of amounts currently deductible for U. S. federal income tax purposes.

Investment tax credits (\$544,000 in 1975 and \$176,000 in 1974) are recognized as a reduction of the provision for U. S. federal income taxes on a flow-through basis.

Stock Options — Proceeds from the sale of common stock issued under options are credited to common stock at the time the options are exercised. Options are issued at market values at the date they are granted. Therefore, the Corporation makes no charges against income with respect to options.

Research and Development Costs — Research and development costs are charged to operations as incurred.

Income Per Common Share — Income per common share is computed by dividing (1) net income, less dividend requirements on the Classes "A" and "B" preferred stock by (2) the average number of common shares outstanding during the year. Outstanding stock options did not have a material dilutive effect.

NOTE B — NOTES PAYABLE TO BANKS

Notes payable to banks of \$14,000,000 at September 30, 1975, represent advances under lines of credit. Terms of the credit agreements require the Corporation to maintain average compensating cash balances, or fees in lieu thereof, on deposit with the banks equal to 10% of the available lines of credit plus 10% of the debt outstanding.

The Corporation is presently renegotiating its credit arrangements.

NOTE C — PENSION PLAN

Prior to 1975, the Corporation had a deferred annuity type pension plan for employees meeting certain requirements as to age and length of service. The provision for pension costs amounted to \$60,000 in 1974. Effective December 31, 1974, the pension plan was terminated. The plan was replaced by Individual Retirement Annuity plans which are paid individually by the employees electing to participate. Accordingly, the Corporation incurred no pension costs during 1975.

NOTE D — STOCK OPTIONS

The Corporation has a stock option plan for officers and key employees. Generally, the options are exercisable at the rate of 20% a year and

expire five years from date of grant. The option price for all options is 100% of market value at date of grant.

During the year ended September 30, 1975, no options were granted or exercised. At September 30, 1975, options for 11,000 shares, at \$3.25 Canadian a share, were outstanding of which 6,600 were exercisable.

NOTE E — CAPITAL STOCK

In January, 1974, each of the authorized and issued common shares of the Corporation was split on a two for one basis. The calculation of income per common share has been adjusted to reflect this stock split.

NOTE F — LEASES

Na-Churs Plant Food Co. leases certain transportation equipment and computer hardware. The leases require minimum annual rentals as follows:

1976	\$1,322,930
1977	\$1,200,830
1978	\$1,099,930
1979	\$ 238,502
1980	\$ 171,160

Rental expense totaled \$1,274,344 for the year ended September 30, 1975. A portion of this expense was based on mileage charges for leased trucks.

NOTE G — LITIGATION

Subsidiaries of the Corporation are defendants in several lawsuits. The majority of the lawsuits result from product liability claims and are covered by product liability insurance. The Corporation is not insured against certain other types of injuries or punitive damages.

Claims totaling approximately \$1,500,000, including \$538,000 punitive damages, are being defended by counsel for the Corporation's insurance carrier. In addition, claims totaling \$465,000 are being defended by counsel for the Corporation and are not covered by insurance.

Such claims are not unusual in the fertilizer industry and the majority typically become of the "nuisance" variety. Because most of the lawsuits are in preliminary stages, legal counsel is not able to express an opinion on their ultimate outcome. However, management of the Corporation is of the opinion that uninsured settlements will not be material.

NOTE H — RECLASSIFICATIONS

Certain amounts in the 1974 financial statements have been reclassified to conform with classifications used in 1975.

NOTE I — COMMITMENTS

The Corporation has commitments for the purchase of certain of its raw materials. "Take-or-pay" commitments exist for the purchase of 30,000 tons per year of phosphoric acid through 1978; and 19,000, 15,000, and 10,000 tons of poly-acid in 1976, 1977, and 1978, respectively. The Corporation also has commitments to purchase 46,000 tons of potash per year during 1976 and 1977, and 14,500 tons during 1978.

The Corporation has decided to discontinue the use of poly-acid in the production of its products. The poly-acid commitments provide for liquidated damages of \$50 for each ton of material not purchased. However, the Corporation and its legal counsel believe that it has meritorious defenses to enforcement of these commitments. Accordingly, no provision for potential liquidated damages has been recorded in the financial statements.

AUDITOR'S REPORT

To the Shareholders

Na-Churs International Limited

We have examined the consolidated balance sheet of Na-Churs International Limited and subsidiaries as of September 30, 1975, and the related statements of consolidated income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the consolidated financial statements for the preceding year.

As discussed in Note I to the consolidated financial statements, the Corporation has purchase commitments for poly-acid which no longer has utility to the Corporation in the manufacture of its products. The commitments provide that if the poly-acid is not purchased then the Corporation shall pay liquidated damages in a fixed amount. However, the Corporation and its legal counsel believe that it has meritorious defenses to enforcement of the commitments. The ultimate outcome of this matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Na-Churs International Limited and subsidiaries at September 30, 1975, and the consolidated results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Ontario
December 5, 1975, except as to Note I as
to which the date is January 23, 1976.

Chartered Accountants



NA-CHURS

MANUFACTURING PLANTS
AND STORAGE FACILITIES
THROUGHOUT CANADA
AND THE UNITED STATES.

• STORAGE FACILITIES

★ MANUFACTURING PLANTS:

421 Leader Street
Marion, Ohio
Oakridge Park
London, Ontario, Canada
1705 N. Broadway
Red Oak, Iowa
3132 Industrial Road
Forrest City, Arkansas





notes to consolidated financial statements

NA-CHURS INTERNATIONAL LIMITED AND SUBSIDIARIES

SEPTEMBER 30, 1975

NOTE A — ACCOUNTING POLICIES

Basis of Consolidation — The consolidated financial statements include the accounts of the Corporation and its subsidiaries (all of which are wholly-owned):

Na-Churs Plant Food Co.
Tri-State Trucking Inc.
Shenandoah Grain Corporation
Na-Churs Plant Food Company (Canada) Limited
The Beriou Company (Canada) Limited

Inter-Company accounts and transactions have been eliminated.

Translation of Foreign Currency — The financial statements are stated in United States dollars. Amounts in Canadian funds have been translated on the following basis:

- Current assets and current liabilities at approximate year-end rates;
- Property, plant and equipment, long-term debt and capital stock at historical rates; and
- Income, costs and expenses at average rates for the year.

Unrealized foreign exchange adjustments (nominal in amount) are treated as income or expense.

Inventories — Inventories have been valued generally at the lower of cost or market. Cost is determined on a first-in, first-out basis. Market is considered as replacement cost which cannot exceed net realizable value nor be less than net realizable value minus a normal profit margin.

Property, Plant and Equipment — Property, plant and equipment is carried at cost and includes expenditures for new assets and those expenditures which substantially increase the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. When properties are disposed of, the cost and related allowances for depreciation are removed from the accounts and any gain or loss is credited or charged to income.

The Corporation provides for depreciation of property, plant and equipment principally by the straight-line method, except for farm storage tanks acquired after September 30, 1974, over the estimated useful lives of the assets. The declining balance depreciation method is used for farm storage tanks acquired subsequent to September 30, 1974.

Rates used in the calculation of depreciation are as follows:

Buildings and roadways — 15 to 25 years
Plant equipment and storage tanks — 3 to 15 years
Office furniture and equipment — 5 to 10 years
Transportation equipment — 4 years

Income Taxes — The Corporation provides for income taxes based on income reported for financial statement purposes, adjusted for permanent tax differences. Deferred taxes result principally from bad debt expense and state franchise (income) tax expense in excess of amounts currently deductible for U. S. federal income tax purposes.

Investment tax credits (\$544,000 in 1975 and \$176,000 in 1974) are recognized as a reduction of the provision for U. S. federal income taxes on a flow-through basis.

Stock Options — Proceeds from the sale of common stock issued under options are credited to common stock at the time the options are exercised. Options are issued at market values at the date they are granted. Therefore, the Corporation makes no charges against income with respect to options.

Research and Development Costs — Research and development costs are charged to operations as incurred.

Income Per Common Share — Income per common share is computed by dividing (1) net income, less dividend requirements on the Classes "A" and "B" preferred stock by (2) the average number of common shares outstanding during the year. Outstanding stock options did not have a material dilutive effect.

NOTE B — NOTES PAYABLE TO BANKS

Notes payable to banks of \$14,000,000 at September 30, 1975, represent advances under lines of credit. Terms of the credit agreements require the Corporation to maintain average compensating cash balances, or fees in lieu thereof, on deposit with the banks equal to 10% of the available lines of credit plus 10% of the debt outstanding.

The Corporation is presently renegotiating its credit arrangements.

NOTE C — PENSION PLAN

Prior to 1975, the Corporation had a deferred annuity type pension plan for employees meeting certain requirements as to age and length of service. The provision for pension costs amounted to \$60,000 in 1974. Effective December 31, 1974, the pension plan was terminated. The plan was replaced by Individual Retirement Annuity plans which are paid individually by the employees electing to participate. Accordingly, the Corporation incurred no pension costs during 1975.

NOTE D — STOCK OPTIONS

The Corporation has a stock option plan for officers and key employees. Generally, the options are exercisable at the rate of 20% a year and

expire five years from date of grant. The option price for all options is 100% of market value at date of grant.

During the year ended September 30, 1975, no options were granted or exercised. At September 30, 1975, options for 11,000 shares, at \$3.25 Canadian a share, were outstanding of which 6,600 were exercisable.

NOTE E — CAPITAL STOCK

In January, 1974, each of the authorized and issued common shares of the Corporation was split on a two for one basis. The calculation of income per common share has been adjusted to reflect this stock split.

NOTE F — LEASES

Na-Churs Plant Food Co. leases certain transportation equipment and computer hardware. The leases require minimum annual rentals as follows:

1976	\$1,322,930
1977	\$1,200,830
1978	\$1,099,930
1979	\$ 238,502
1980	\$ 171,160

Rental expense totaled \$1,274,344 for the year ended September 30, 1975. A portion of this expense was based on mileage charges for leased trucks.

NOTE G — LITIGATION

Subsidiaries of the Corporation are defendants in several lawsuits. The majority of the lawsuits result from product liability claims and are covered by product liability insurance. The Corporation is not insured against certain other types of injuries or punitive damages.

Claims totaling approximately \$1,500,000, including \$538,000 punitive damages, are being defended by counsel for the Corporation's insurance carrier. In addition, claims totaling \$465,000 are being defended by counsel for the Corporation and are not covered by insurance.

Such claims are not unusual in the fertilizer industry and the majority typically become of the "nuisance" variety. Because most of the lawsuits are in preliminary stages, legal counsel is not able to express an opinion on their ultimate outcome. However, management of the Corporation is of the opinion that uninsured settlements will not be material.

NOTE H — RECLASSIFICATIONS

Certain amounts in the 1974 financial statements have been reclassified to conform with classifications used in 1975.

NOTE I — COMMITMENTS

The Corporation has commitments for the purchase of certain of its raw materials. "Take-or-pay" commitments exist for the purchase of 30,000 tons per year of phosphoric acid through 1978; and 19,000, 15,000, and 10,000 tons of poly-acid in 1976, 1977, and 1978, respectively. The Corporation also has commitments to purchase 46,000 tons of potash per year during 1976 and 1977, and 14,500 tons during 1978.

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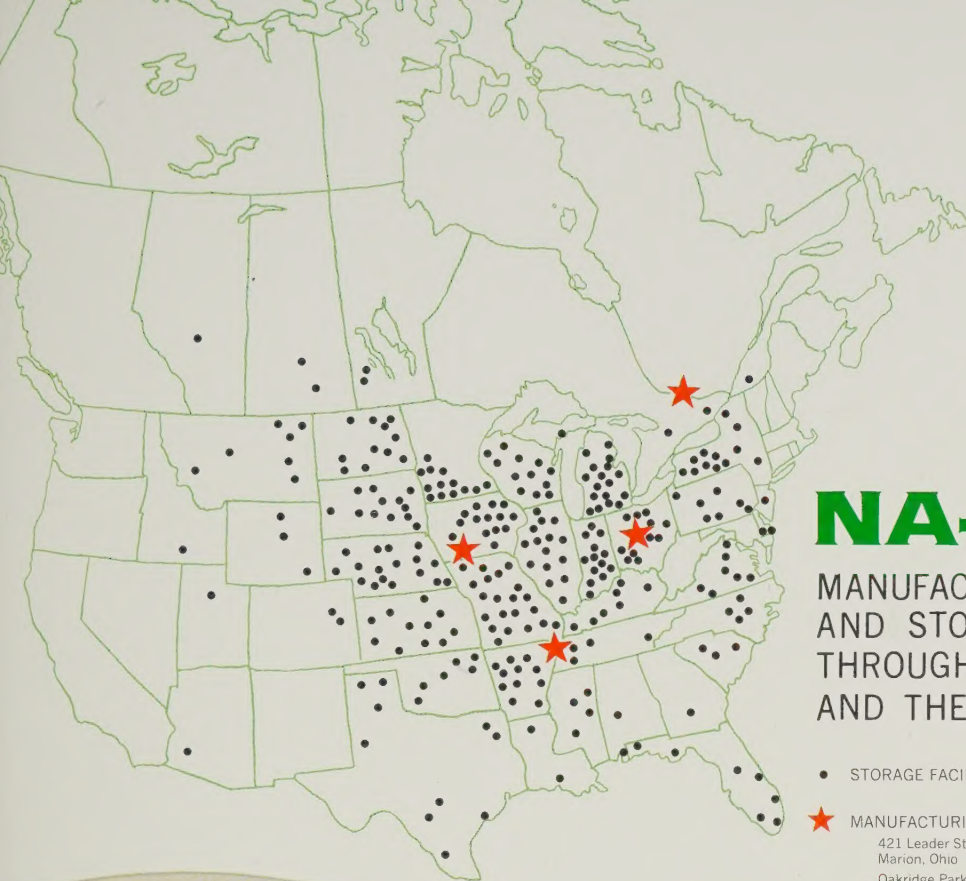
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London, Ontario

December 5, 1975, except as to Note I as to which the date is January 23, 1976.

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NA-CHURS

INTERNATIONAL

LIMITED

Na-Churs Drive, Oakridge Park, London, Ontario, Canada

Marion, Ohio London, Ontario, Canada Red Oak, Iowa Forrest City, Arkansas